

**Village of Ashley
Gratiot County, Michigan**

FINANCIAL STATEMENTS

February 29, 2008

Village of Ashley
Gratiot County, Michigan

February 29, 2008

VILLAGE OFFICERS AND TRUSTEES

Marcella Thompson	President
Duane Schneider	President Pro-tem
Kathryn Strouse	Treasurer
Carol Denniston	Clerk
Ann Paksi	Trustee
Darian Campbell	Trustee
Dennis Campbell	Trustee
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Village of Ashley

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Ashley
Ashley, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ashley, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Ashley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ashley, Michigan as of February 29, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 26, 2008

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

The following is a discussion and analysis of Village of Ashley's (the Village's) financial performance and position, providing an overview of the activities for the year ended February 29, 2008. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$1,180,793.
- Governmental activities net assets were \$735,336.
- Business-type activity net assets were \$445,457.

Fund Level:

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$432,924 with \$2,758 being reserved for prepaids.
- The General Fund realized \$33,082 more in revenues than anticipated for the fiscal year. The General Fund operations expended \$4,076 less than appropriated.
- Overall, the General Fund balance increased by \$51,696 to \$343,510 with \$340,752 being undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The Village issued no new debt issues for the year.
- The total long-term debt for the primary government was \$18,320.
- The Village remains well below its authorized legal debt limit.
- The total addition to the capital asset schedule for the primary government was \$40,400.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds.

Government-wide Financial Statements (Reporting the Village as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during the 2007-2008 fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water System Fund and the Sewer System Fund make up the business-type activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.

In addition, it should be noted that the government-wide financial statements include the net value of the Village's general capital assets such as buildings, land, vehicles, equipment, infrastructure, etc. These values are not included in the fund financial statements.

Fund Financial Statements (Reporting the Village's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Ashley include the General Fund, the Major Street Fund, the Sewer System Fund, and the Water System Fund. All other funds are reported in aggregate by the applicable fund type.

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted).
- **Proprietary Funds** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. Examples are the Sewer System Fund and the Water System Fund.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 11 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

As previously stated, the Village of Ashley's combined net assets were \$1,180,793 at the end of this year's operations. The net assets of the governmental activities were \$735,336; the business-type activities were \$445,457.

Net Assets as of February 28, 2006 and February 29, 2008

	2006			2008		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
Current Assets	\$ 394,623	\$ 61,953	\$ 456,576	\$ 448,422	\$ 119,823	\$ 568,245
Capital Assets	307,150	341,039	648,189	316,028	328,446	644,474
Total Assets	\$ 701,773	\$ 402,992	\$ 1,104,765	\$ 764,450	\$ 448,269	\$ 1,212,719
Current Liabilities	\$ 25,759	\$ 1,660	\$ 27,419	\$ 29,114	\$ 2,812	\$ 31,926
Noncurrent Liabilities	35,894	-	35,894	-	-	-0-
Total Liabilities	\$ 61,653	\$ 1,660	\$ 63,313	\$ 29,114	\$ 2,812	\$ 31,926

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

Net Assets as of February 28, 2006 and February 29, 2008 - continued

	2006			2008		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
Net Assets						
Invested in Capital Assets (Net of related debt)	\$ 254,399	\$ 341,039	\$ 595,438	\$ 297,708	\$ 328,446	\$ 626,154
Restricted	119,336	-	119,336	89,414	-	89,414
Unrestricted	266,385	60,293	326,678	348,214	117,011	465,225
Total Net Assets	\$ 640,120	\$ 401,332	\$ 1,041,452	\$ 735,336	\$ 445,457	\$ 1,180,793

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Years Ending February 28, 2006 and February 29, 2008

	2006			2008		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
Revenues						
Program Revenues						
Charges for Services	\$ 77,749	\$ 119,123	\$ 196,872	\$ 82,672	\$ 147,143	\$ 229,815
Grants & Contributions	50,219	-	50,219	49,564	-	49,564
General Revenues						
Property Taxes	82,251	-	82,251	92,674	-	92,674
State Shared Revenue	55,976	-	55,976	54,813	-	54,813
Investment Earnings	7,857	386	8,243	8,765	633	9,398
Miscellaneous	3,360	-	3,360	2,245	-	2,245
Internal Charges	6,186	(6,186)	-0-	15,399	(15,399)	-0-
Total Revenues	283,598	113,323	396,921	306,132	132,377	438,509
Expenses						
General Government	123,528	-	123,528	119,051	-	119,051
Public Safety	46,368	-	46,368	39,312	-	39,312
Public Works	46,792	-	46,792	63,520	-	63,520
Health & Welfare	11,815	-	11,815	18,100	-	18,100
Recreation & Cultural	2,802	-	2,802	2,258	-	2,258
Interest on long-term debt	2,637	-	2,637	1,214	-	1,214
Other	-	100,531	100,531	-	114,309	114,309
Total Expenses	233,942	100,531	334,473	243,455	114,309	357,764
Increase in net assets	49,656	12,792	62,448	62,677	18,068	80,745
Net Assets - Beginning	590,464	388,540	979,004	672,659	427,389	1,100,048
Net Assets - Ending	\$ 640,120	\$ 401,332	\$ 1,041,452	\$ 735,336	\$ 445,457	\$ 1,180,793

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

Governmental Activities:

The result of 2007-2008 governmental activity was an increase of \$62,677 in net assets to \$735,336. Of the total governmental activities' net assets, \$297,708 is invested in capital assets less related debt, \$89,414 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the Village government. The balance of \$348,214 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories were property taxes at 30%, charges for services at 27%, and State shared revenue at 18%. The Village levied one property tax millage for the year ended February 29, 2008, for general government operations at 11.1256 mills, which is not assigned to any particular activity.

Expenses:

General government is the largest governmental activity, expending approximately 49% of the governmental activities total and includes the Legislative, President, Clerk, Treasurer, Assessor, Elections, and Hall and Grounds departments. Public works is the second largest activity, expending approximately 26% of the governmental activities total and includes public street maintenance and refuse collection.

Business-type Activities:

Net assets in business-type activities increased by \$18,068 during the 2007-2008 fiscal year. Of the business-type activities' net assets, \$328,446 is invested in capital assets. The balance of \$117,011 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR AND NONMAJOR FUNDS

As the Village completed the 2007-2008 fiscal year, its governmental funds reported *combined* fund balances of \$422,662. This was a net increase of \$59,105. The net changes are summarized in the following chart:

	General Fund	Major Street	Nonmajor Governmental Fund
Fund Balance 2/29/08	\$ 343,510	\$ 61,783	\$ 27,631
Fund Balance 2/28/07	\$ 291,814	\$ 48,868	\$ 22,875
Net Change	\$ 51,696	\$ 12,915	\$ 4,756

General Fund:

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of February 29, 2008, the General Fund reported a fund balance of \$343,510. This amount is an increase of \$51,696 from the fund balance of \$291,814 reported as of February 28, 2007. The 2007-2008 final amended budget called for a \$14,538 increase of fund balance.

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

General Fund Budgetary Highlights:

The Village of Ashley's budget is a dynamic document. Although adopted in February each year, the budget may be amended during the course of the year to reflect changing operational demands.

Actual General Fund revenues totaled \$265,059; \$33,082 above the final amended budget. The original budget was not amended during the year.

Actual Village expenditures for the fiscal year were \$4,076 under budget. General Fund actual expenditures were \$213,363 and the final budgeted amounts totaled \$217,439.

Major Street Fund:

As of February 29, 2008, the Major Street Fund reported a fund balance of \$61,783, an increase of \$12,915 from the prior year's fund balance. The total fund balance is undesignated/unreserved.

The original budget and the final budget were the same for revenues and expenditures in this fund and actual revenues and expenditures were reasonable compared to budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of the fiscal year, the Village had invested \$644,474, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$1,073,315 for the primary government. Depreciation charges for the fiscal year totaled \$61,839 for the primary government. Additional information related to capital assets is detailed in Note E of the Financial Statements. Net book value of capital assets at February 29, 2008, was as follows:

	Governmental Activities	Business-type Activities	Total
Land	\$ -	\$ 12,405	\$ 12,405
Construction in Progress	-	20,263	20,263
Buildings and improvements, net	27,827	-	27,827
Infrastructure, net	111,887	-	111,887
Vehicles and equipment, net	176,314	-	176,314
Sewer system, net	-	170,202	170,202
Water system, net	-	125,576	125,576
Capital assets, net	\$ 316,028	\$ 328,446	\$ 644,474

Long-term Debt - As of February 29, 2008, the Village had 18,320 in outstanding debt. There is one (1) annual payment remaining on the 1998 Fire Truck loan.

Outstanding Debt as of February 29, 2008:

	<u>March 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Feb. 29, 2008</u>
Governmental Activities				
1998 Fire Truck loan	\$ 35,894	\$ -	\$ 17,574	\$ 18,320
Capital leases	3,000	-	3,000	-0-
	\$ 38,894	\$ -0-	\$ 20,574	\$ 18,320

A more detailed discussion of the Village's long-term debt obligations is presented in Note F to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2008

VILLAGE OF ASHLEY GOVERNMENT ECONOMIC OUTLOOK

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Further cuts in revenue sharing funds could affect the services that we provide to the citizens of the Village of Ashley.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are rising in recent years.
- Health insurance premiums are rising much faster than the rate of inflation.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the budget for the 2008-2009 fiscal year. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE VILLAGE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 847-3050.

BASIC FINANCIAL STATEMENTS

Village of Ashley

STATEMENT OF NET ASSETS

February 29, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 175,064	\$ 134,325	\$ 309,389
Investments	199,647	-	199,647
Receivables	24,833	12,498	37,331
Due from other governmental units	19,120	-	19,120
Prepays	2,758	-	2,758
Internal balances	3,000	(3,000)	-0-
Total current assets	424,422	143,823	568,245
Noncurrent assets			
Internal balances	24,000	(24,000)	-0-
Capital assets not being depreciated	-	32,668	32,668
Capital assets being depreciated, net	316,028	295,778	611,806
Total noncurrent assets	340,028	304,446	644,474
TOTAL ASSETS	764,450	448,269	1,212,719
LIABILITIES			
Current liabilities			
Accounts payable	3,761	2,812	6,573
Accrued wages	3,581	-	3,581
Other accrued liabilities	3,128	-	3,128
Accrued interest payable	324	-	324
Current portion of long-term debt	18,320	-	18,320
TOTAL LIABILITIES	29,114	2,812	31,926
NET ASSETS			
Invested in capital assets, net of related debt	297,708	328,446	626,154
Restricted for streets and highways	89,414	-	89,414
Unrestricted	348,214	117,011	465,225
TOTAL NET ASSETS	\$ 735,336	\$ 445,457	\$ 1,180,793

See accompanying notes to financial statements.

Village of Ashley
STATEMENT OF ACTIVITIES
Year Ended February 29, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 119,051	\$ 3,319	\$ -	\$ (115,732)	\$ -0-	\$ (115,732)
Public safety	39,312	43,834	-	4,522	-0-	4,522
Public works	63,520	17,572	49,564	3,616	-0-	3,616
Health and welfare	18,100	17,947	-	(153)	-0-	(153)
Recreation and cultural	2,258	-	-	(2,258)	-0-	(2,258)
Interest on long-term debt	1,214	-	-	(1,214)	-0-	(1,214)
Total governmental activities	243,455	82,672	49,564	(111,219)	-0-	(111,219)
Business-type activities						
Sewer	52,666	68,060	-	-0-	15,394	15,394
Water	61,643	79,083	-	-0-	17,440	17,440
Total business-type activities	114,309	147,143	-0-	-0-	32,834	32,834
Total	<u>\$ 357,764</u>	<u>\$ 229,815</u>	<u>\$ 49,564</u>	(111,219)	32,834	(78,385)
General revenues						
Property taxes				92,674	-	92,674
State shared revenue				54,813	-	54,813
Investment earnings				8,765	633	9,398
Miscellaneous				2,245	-	2,245
Internal charges				15,399	(15,399)	-0-
Total general revenues and internal charges				173,896	(14,766)	159,130
Change in net assets				62,677	18,068	80,745
Net assets, beginning of the year				672,659	427,389	1,100,048
Net assets, end of the year				<u>\$ 735,336</u>	<u>\$ 445,457</u>	<u>\$ 1,180,793</u>

See accompanying notes to financial statements.

Village of Ashley

GOVERNMENTAL FUNDS BALANCE SHEET

February 29, 2008

	General	Major Street	Nonmajor Governmental Fund (Local Street)	Total Governmental Funds
ASSETS				
Cash	\$ 103,823	\$ 46,136	\$ 25,105	\$ 175,064
Investments	190,332	9,315	-	199,647
Receivables				
Taxes	8,679	-	-	8,679
Accounts	16,154	-	-	16,154
Due from other governmental units	10,262	6,332	2,526	19,120
Advance to other funds	27,000	-	-	27,000
Prepays	2,758	-	-	2,758
TOTAL ASSETS	\$ 359,008	\$ 61,783	\$ 27,631	\$ 448,422
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 3,761	\$ -	\$ -	\$ 3,761
Accrued wages	3,581	-	-	3,581
Other accrued liabilities	3,128	-	-	3,128
Deferred revenue	5,028	-	-	5,028
TOTAL LIABILITIES	15,498	-0-	-0-	15,498
FUND BALANCES				
Reserved for				
Prepays	2,758	-	-	2,758
Unreserved				
Undesignated, reported in				
General fund	340,752	-	-	340,752
Special revenue funds	-	61,783	27,631	89,414
TOTAL FUND BALANCES	343,510	61,783	27,631	432,924
TOTAL LIABILITIES AND FUND BALANCES	\$ 359,008	\$ 61,783	\$ 27,631	\$ 448,422

See accompanying notes to financial statements.

Village of Ashley

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

February 29, 2008

Total fund balance - governmental funds \$ 432,924

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 620,270	
Accumulated depreciation is	<u>(304,242)</u>	
Capital assets, net		316,028

Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue		5,028
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Note payable	(18,320)	
Accrued interest payable	<u>(324)</u>	
		<u>(18,644)</u>

Net assets of governmental activities \$ 735,336

See accompanying notes to financial statements.

Village of Ashley

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended February 29, 2008

	General	Major Street	Nonmajor Governmental Fund (Local Street)	Total Governmental Funds
REVENUES				
Taxes	\$ 92,674	\$ -	\$ -	\$ 92,674
Licenses and permits	280	-	-	280
Intergovernmental	54,813	35,247	14,316	104,376
Charges for services	103,650	-	-	103,650
Interest and rents	11,234	804	45	12,083
Other	2,408	-	-	2,408
TOTAL REVENUES	265,059	36,051	14,361	315,471
EXPENDITURES				
Current				
General government	118,675	-	-	118,675
Public safety	24,890	-	-	24,890
Public works	26,798	14,306	18,435	59,539
Health and welfare	14,280	-	-	14,280
Recreation and cultural	1,528	-	-	1,528
Debt service	22,099	-	-	22,099
Capital outlay	5,093	-	-	5,093
TOTAL EXPENDITURES	213,363	14,306	18,435	246,104
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	51,696	21,745	(4,074)	69,367
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	8,830	8,830
Transfers out	-	(8,830)	-	(8,830)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(8,830)	8,830	-0-
NET CHANGE IN FUND BALANCES	51,696	12,915	4,756	69,367
Fund balances, beginning of year	291,814	48,868	22,875	363,557
Fund balances, end of year	\$ 343,510	\$ 61,783	\$ 27,631	\$ 432,924

See accompanying notes to financial statements.

Village of Ashley

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

Net change in fund balances - total governmental funds **\$ 69,367**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(32,323)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Increase in deferred revenue	4,748
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Loan principal retirement	\$ 20,574	
Decrease in accrued interest payable	311	
		20,885

Change in net assets of governmental activities	<u>\$ 62,677</u>
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See accompanying notes to financial statements.

Village of Ashley

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

February 29, 2008

	Business-type Activities		
	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash	\$ 61,760	\$ 72,565	\$ 134,325
Utilities receivable	5,355	7,143	12,498
Total current assets	67,115	79,708	146,823
Noncurrent assets			
Capital assets not being depreciated	32,668	-	32,668
Capital assets being depreciated, net	170,202	125,576	295,778
Total noncurrent assets	202,870	125,576	328,446
TOTAL ASSETS	269,985	205,284	475,269
LIABILITIES			
Current liabilities			
Accounts payable	257	2,555	2,812
Advance from other funds	3,000	-	3,000
Total current liabilities	3,257	2,555	5,812
Noncurrent liabilities			
Advance from other funds	24,000	-	24,000
TOTAL LIABILITIES	27,257	2,555	29,812
NET ASSETS			
Invested in capital assets	202,870	125,576	328,446
Unrestricted	39,858	77,153	117,011
TOTAL NET ASSETS	\$ 242,728	\$ 202,729	\$ 445,457

See accompanying notes to financial statements.

Village of Ashley

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS

Year Ended February 29, 2008

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 68,060	\$ 79,083	\$ 147,143
OPERATING EXPENSES			
Salaries and wages	11,303	11,060	22,363
Supplies	4,196	24,563	28,759
Contractual services	4,586	9,768	14,354
Utilities	2,542	4,044	6,586
Repairs and maintenance	4,047	35	4,082
Sample testing	1,630	1,252	2,882
Equipment rental	7,968	7,431	15,399
Insurance	1,121	475	1,596
Communications	1,356	1,078	2,434
Other	865	872	1,737
Depreciation	21,020	8,496	29,516
TOTAL OPERATING EXPENSES	60,634	69,074	129,708
OPERATING INCOME	7,426	10,009	17,435
NONOPERATING REVENUES			
Interest revenue	119	514	633
CHANGE IN NET ASSETS	7,545	10,523	18,068
Net assets, beginning of year	235,183	192,206	427,389
Net assets, end of year	\$ 242,728	\$ 202,729	\$ 445,457

See accompanying notes to financial statements.

Village of Ashley

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended February 29, 2008

	Business-type Activities		
	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 67,544	\$ 77,708	\$ 145,252
Cash paid for labor charges	(11,303)	(11,060)	(22,363)
Cash paid to suppliers	(32,119)	(47,674)	(79,793)
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,122	18,974	43,096
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital purchases	(20,263)	(20,137)	(40,400)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	119	514	633
NET INCREASE (DECREASE) IN CASH	3,978	(649)	3,329
Cash, beginning of year	57,782	73,214	130,996
Cash, end of year	<u>\$ 61,760</u>	<u>\$ 72,565</u>	<u>\$ 134,325</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 7,426	\$ 10,009	\$ 17,435
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	21,020	8,496	29,516
(Increase) in utilities receivable	(516)	(1,375)	(1,891)
Increase (decrease) in accounts payable	(808)	1,844	1,036
(Decrease) in advance from other funds	(3,000)	-	(3,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 24,122</u>	<u>\$ 18,974</u>	<u>\$ 43,096</u>

See accompanying notes to financial statements.

Village of Ashley

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

February 29, 2008

	Agency Fund
ASSETS	
Cash	<u>\$ 8,141</u>
LIABILITIES	
Due to individuals and agencies	<u>\$ 8,141</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Ashley is located in Gratiot County, Michigan and has a population of approximately 526. The Village of Ashley operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, President Pro-tem, Clerk, Treasurer, and five (5) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Ashley (primary government).

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Village of Ashley contain all the funds controlled by the Village Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- d. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the required supplementary information.

- a. Prior to March 1, the Village Council prepares the proposed operating budgets for the fiscal year commencing March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 1, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level; however, they are maintained at the account level for control purposes.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 29, 2008 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures.

6. Cash and Investments

Cash consists of various checking accounts. Investments consist of certificates of deposit with an original maturity of greater than 90 days. All investments are stated at market value.

7. Property Taxes

The Village of Ashley bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Property Taxes - continued

Property taxes are levied by the Village of Ashley on July 1 and are payable without penalty through September 14. All real property taxes not paid to the Village by September 15 are turned over to the Gratiot County Treasurer for collection. The Gratiot County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 12.5 mills (\$12.50 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 29, 2008, the Village levied 11.1256 mills for general governmental services. The total taxable value for the 2007 levy for property within the Village was \$8,000,874.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers.

The General Fund records charges for equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$2,500 or more, with estimated useful lives of one year or greater. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Utility plant, wells and mains	33 - 50 years
Sewer system	50 years
Vehicles and equipment	5 - 20 years
Infrastructure - streets	20 years
Buildings and improvements	20 - 40 years

10. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146..
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of February 29, 2008, the carrying amounts and bank balances for each type of bank account are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking and savings	\$ 317,530	\$ 338,112
Certificates of deposit	<u>199,647</u>	<u>199,647</u>
	<u>\$ 517,177</u>	<u>\$ 537,759</u>

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE B: CASH AND INVESTMENTS - CONTINUED

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 29, 2008, the carrying amount of the Village's deposits was \$517,177 and the bank balance was \$537,759, of which \$215,389 was covered by federal depository insurance. The remaining balance of \$322,370 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of February 29, 2008, the Village did not have any investments that would be subject to rating.

Interest rate risk

The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The cash and investments referred to above have been reported in either the cash or investments captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 29, 2008:

	<u>Primary Government</u>	<u>Fiduciary Fund</u>	<u>Reporting Entity</u>
Cash	\$ 309,389	\$ 8,141	\$ 317,530
Investments	<u>199,647</u>	<u>-</u>	<u>199,647</u>
	<u>\$ 509,036</u>	<u>\$ 8,141</u>	<u>\$ 517,177</u>

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Local Street Fund from:	
Major Street Fund	<u>\$ 8,830</u>

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE D: ADVANCES RECEIVABLE AND PAYABLES

The following schedule details advances receivable and payable between funds of the primary government at February 29, 2008:

Advance from General Fund to:	
Sewer System Fund	<u>\$ 27,000</u>

The advance to the enterprise fund was made for the purpose of financing sewer equipment.

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

	Balance March 1, 2007	Additions	Deletions	Balance Feb. 29, 2008
Governmental activities				
Capital assets being depreciated				
Buildings and improvements	\$ 72,524	\$ -	\$ -	\$ 72,524
Infrastructure	124,718	-	-	124,718
Vehicles and equipment	<u>481,944</u>	<u>-</u>	<u>(58,916)</u>	<u>423,028</u>
Subtotal	679,186	-0-	(58,916)	620,270
Less accumulated depreciation				
Buildings and improvements	(43,446)	(1,251)	-	(44,697)
Infrastructure	(6,595)	(6,236)	-	(12,831)
Vehicles and equipment	<u>(280,794)</u>	<u>(24,836)</u>	<u>58,916</u>	<u>(246,714)</u>
Subtotal	<u>(330,835)</u>	<u>(32,323)</u>	<u>58,916</u>	<u>(304,242)</u>
Capital assets, net	<u>\$ 348,351</u>	<u>\$ (32,323)</u>	<u>\$ -0-</u>	<u>\$ 316,028</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 376
Public safety	14,422
Public works	12,975
Health and welfare	3,820
Recreation and cultural	<u>730</u>
Total	<u>\$ 32,323</u>

	Balance March 1, 2007	Additions	Deletions	Balance Feb. 29, 2008
Business-type activities				
Capital assets not being depreciated				
Land - sewer	\$ 12,405	\$ -	\$ -	\$ 12,405
Construction in Progress	<u>-</u>	<u>20,263</u>	<u>-</u>	<u>20,263</u>
Subtotal	12,405	20,263	-0-	32,668

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE E: CAPITAL ASSETS - CONTINUED

	Balance March 1, 2007	Additions	Deletions	Balance Feb. 29, 2008
Business-type activities - continued				
Capital assets being depreciated				
Utility plant, wells, and mains - water	\$ 322,935	\$ 20,137	\$ -	\$ 343,072
Sewer system	<u>720,779</u>	<u>-</u>	<u>-</u>	<u>720,779</u>
Subtotal	1,043,714	20,137	-0-	1,063,851
Less accumulated depreciation				
Utility plant, wells, and mains - water	(209,000)	(8,496)	-	(217,496)
Sewer system	<u>(529,557)</u>	<u>(21,020)</u>	<u>-</u>	<u>(550,577)</u>
Subtotal	<u>(738,557)</u>	<u>(29,516)</u>	<u>-0-</u>	<u>(768,073)</u>
Net capital assets being depreciated	<u>305,157</u>	<u>(9,379)</u>	<u>-0-</u>	<u>295,778</u>
Capital assets, net	<u>\$ 317,562</u>	<u>\$ 10,884</u>	<u>\$ -0-</u>	<u>\$ 328,446</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended February 29, 2008.

	Balance March 1, 2007	Additions	Reductions	Balance Feb. 29, 2008	Amounts Due Within One Year
Fire Truck note payable	\$ 35,894	\$ -	\$ 17,574	\$ 18,320	\$ 18,320
Capital leases	<u>3,000</u>	<u>-</u>	<u>3,000</u>	<u>-0-</u>	<u>-0-</u>
	<u>\$ 38,894</u>	<u>\$ -0-</u>	<u>\$ 20,574</u>	<u>\$ 18,320</u>	<u>\$ 18,320</u>

Fire Truck Note Payable

\$153,000 Fire truck loan dated October 6, 1998, due in annual installments of \$19,099 through October 6, 2008, with interest at 4.25 percent.

\$ 18,320

Commitments under this agreement provide for minimum annual payments as follows:

Year Ending February 28,	Principal	Interest
2009	<u>\$ 18,320</u>	<u>\$ 779</u>

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the activity level. The approved budgets of the Village have been adopted at the activity level and the total expenditure level for the General and Special Revenue Funds, respectively.

During the year ended February 29, 2008, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Legislative	\$ 2,240	\$ 4,920	\$ 2,680
Executive	570	1,250	680
Clerk	10,800	11,460	660
Treasurer	2,860	4,750	1,890
Public works			
Street lighting	8,900	9,078	178
Rubbish collection	16,384	17,720	1,336
Debt service			
Principal	17,574	20,574	3,000
Capital outlay	4,000	5,093	1,093
Major Street Fund			
Transfers out	-	8,830	8,830
Local Street Fund			
Public works	16,543	18,435	1,892

NOTE H: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, and crime losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE I: RETIREMENT PLAN

The Village of Ashley is the sponsor of a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plan for the sole benefit of its employees. The Village of Ashley Retirement Plan is a SIMPLE defined contribution pension benefit plan, which is authorized under the 408(p) of the Internal Revenue Code. All Village employees are eligible to participate. During the year ended February 29, 2008, the Village of Ashley was required to contribute for all eligible employees at a minimum rate of 3% of wages. Employees may elect to contribute additional amounts at a predetermined rate of their compensation. The plan is administered by Capital Guardian Trust. The Village made contributions to the retirement plan in the amount of \$488 in employer contributions and voluntary contributions from employees in the amount of \$488.

NOTE J: BUILDING AND ZONING FINANCIAL INFORMATION

The Village elected to report the financial activities of the building and zoning activity in the general fund. The following is the required information as it relates to this activity for the year ended February 29, 2008.

REVENUES	
Building Permits	\$ 280
EXPENDITURES	
Contracted services	<u>280</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -0-</u>

NOTE K: FUND BALANCE RESERVE

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following is the General Fund balance reserve as of February 29, 2008:

General Fund	
Prepays	<u>\$ 2,758</u>

NOTE L: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 29, 2008:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Streets and highways	
Major streets	\$ 61,783
Local streets	<u>27,631</u>
	<u>\$ 89,414</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Ashley

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 85,000	\$ 85,000	\$ 89,013	\$ 4,013
Penalties	-	-	2,764	2,764
Tax collection fees	-	-	897	897
Total taxes	85,000	85,000	92,674	7,674
Licenses and permits				
Building and zoning permits	120	120	280	160
Intergovernmental				
State shared revenue	55,000	55,000	54,813	(187)
Charges for services				
Equipment rental	13,819	13,819	29,486	15,667
Ambulance runs	-	-	2,755	2,755
Ambulance contracts	11,886	11,886	10,887	(999)
Fire runs	-	-	1,064	1,064
Fire contracts	42,490	42,490	42,490	-0-
Rubbish collection	16,362	16,362	16,968	606
Total charges for services	84,557	84,557	103,650	19,093
Interest and rents				
Interest	7,000	7,000	7,916	916
Rent - equipment	300	300	3,318	3,018
Total interest and rents	7,300	7,300	11,234	3,934
Other revenue				
Miscellaneous	-	-	2,408	2,408
TOTAL REVENUES	231,977	231,977	265,059	33,082
EXPENDITURES				
General government				
Legislative	2,240	2,240	4,920	(2,680)
Executive	570	570	1,250	(680)
Clerk	10,800	10,800	11,460	(660)
Treasurer	2,860	2,860	4,750	(1,890)
Hall and grounds	99,468	99,468	96,295	3,173
Total general government	115,938	115,938	118,675	(2,737)

Village of Ashley

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 29, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Public safety				
Fire department	\$ 30,234	\$ 30,234	\$ 24,890	\$ 5,344
Public works				
Street lighting	8,900	8,900	9,078	(178)
Rubbish collection	16,384	16,384	17,720	(1,336)
Total public works	25,284	25,284	26,798	(1,514)
Health and welfare				
Ambulance	19,883	19,883	14,280	5,603
Recreation and cultural				
Parks	3,000	3,000	1,528	1,472
Debt service				
Principal	17,574	17,574	20,574	(3,000)
Interest	1,526	1,526	1,525	1
Total debt service	19,100	19,100	22,099	(2,999)
Capital outlay	4,000	4,000	5,093	(1,093)
TOTAL EXPENDITURES	217,439	217,439	213,363	4,076
NET CHANGE IN FUND BALANCE	14,538	14,538	51,696	37,158
Fund balance, beginning of year	291,814	291,814	291,814	-0-
Fund balance, end of year	<u>\$ 306,352</u>	<u>\$ 306,352</u>	<u>\$ 343,510</u>	<u>\$ 37,158</u>

Village of Ashley

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 35,000	\$ 35,000	\$ 35,247	\$ 247
Interest	-	-	804	804
TOTAL REVENUES	35,000	35,000	36,051	1,051
EXPENDITURES				
Public works	71,602	71,602	14,306	57,296
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(36,602)	(36,602)	21,745	58,347
OTHER FINANCING USES				
Transfers out	-	-	(8,830)	(8,830)
NET CHANGE IN FUND BALANCE	(36,602)	(36,602)	12,915	49,517
Fund balance, beginning of year	48,868	48,868	48,868	-0-
Fund balance, end of year	<u>\$ 12,266</u>	<u>\$ 12,266</u>	<u>\$ 61,783</u>	<u>\$ 49,517</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Ashley
Ashley, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Village of Ashley, Michigan for the year ended February 29, 2008. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Village should consider having an annual audit.

Under Michigan law, the Village is required to have an audit every other year at a minimum as a local unit with a population of 4,000 or less. Many local units are not specifically required to have annual audits performed but choose to have it done. Some of the benefits of having an annual audit are:

- Timelier follow-up of management letter comments. Our prior audit contained several suggestions for improvement as does the current year. An annual audit would assure that these issues are re-visited annually.
- More accurate financial information. The Village operates on a cash basis of accounting, with adjustments to modified or full accrual basis being suggested by the auditors. Since this is only done every other year, a significant number of adjustments are typically suggested. Not having adjusted financial information means that the Council is not seeing the full financial picture in a timely manner.
- Issuance of annual audit guidance. The communications we provide are intended to be tools to help management as it strives to improve the internal control structure in place. It is our hope that these tools are viewed as valuable ones by the Village Council and having one each year would be desirable.
- Increased access to experts in government finance. During our fieldwork, the audit team was asked a large number of questions about operational and financial issues. We are pleased to provide this service but the volume of questions received indicates to us that a more frequent presence may be needed.

We are aware that the Village is considering a federally funded loan in the near future. This loan will carry an audit requirement in the year the funds are drawn. Additionally, the funding source may require annual audits.

We suggest that the Village consider having the audit performed annually in the future.

2. The Village should consider having a better filing system.

During the course of our audit, we noted that the Village was not able to locate documentation that we asked for such as IRS Form 941, the investment policy, and the credit card policy. Other documents were found with difficulty. We understand that some of these issues were caused by turnover of the Clerk and Treasurer positions in the past year. The maintenance of certain documentation, however, is the responsibility of the Village Council when appointed officials fail to perform their functions.

We suggest the Village develop a better filing system (which is periodically monitored by the Council) so that the Village can locate support and documentation easily when it is necessary to be reviewed for the Village's informational purposes as well as audit purposes.

3. Transfers between Major and Local Street Funds.

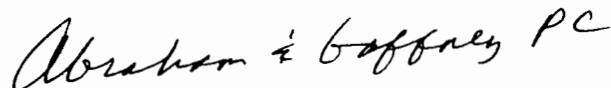
Public Act 9 of 2004 allows an entity to transfer surplus Major Street system funds for the preservation of the Local Street system. This authorization will end December 31, 2008. Effective January 1, 2009, Major Street funds may not be transferred to Local Streets except to the extent matched by local revenues expended on the Major Street system of State.

We suggest the Village consider this when the budget for 2009 is prepared.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements, dated August 26, 2008.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Ashley, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 26, 2008

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

To the Honorable President and
Members of the Village Council
Village of Ashley
Ashley, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ashley, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated August 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Ashley's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Village rests with the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the Village of Ashley. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Village's annual financial statements and notes to the financial statements in accordance with GAAP. The Village relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Village consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, it was noted that the Village has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Village not developing a fraud risk assessment and monitoring program it is unable to assess the Village's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Village develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

POLICIES AND PROCEDURES

During the course of our audit, we noted that the Village has not formally adopted written procedures and policies. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. This issue was noted and reported in our audit comments in 2006. Specifically, we recommend that the Village develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Code of conduct - We recommend the Village adopt a code of conduct including a policy on conflicts of interest. The code should include a requirement that key employees and Village Council members periodically make a declaration of compliance with the code, particularly with respect to conflicts of interest.
- b. Capital assets management policy - We recommend the Village adopt a policy for the acquisition and disposal of capital assets. The policy should specify the dollar threshold to be used for asset capitalization and that the disposal of capital assets requires formal approval by the Village Council. The policy should also indicate estimated useful lives for each major classification of capital assets. Adoption of the capital assets management policy should be documented in the minutes of the Council meetings.

RESCUE RUN BILLING

During the course of our audit, we noted that the Village stopped doing bills for rescue runs during parts of 2006 and 2007. In addition, the Village does not have any set procedures for billing and the Village's management does not follow up to see that billings are processed. We also noted that there is no documentation of procedures to determine which runs were billed or not billed. Even though the Village's current practice is that billings are processed through an outside organization, the rescue board, it is the Village Council's responsibility to ensure that bills are processed for rescue services.

RESCUE RUN BILLING - CONTINUED

Due to the Village not billing for rescue run services the Village is unable to keep track of rescue service revenues which results in increased fraud risk.

We recommend that the Village's management develop and formally implement specific procedures of billing for rescue run services as well as a fraud risk management program and follow up how billings are processed based on the procedures. We also recommend that the Village keep documentation of rescue run services to determine which runs are billed or not billed so that the Village can monitor rescue service revenues.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiencies described below to be material weaknesses in internal control over financial reporting.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by the auditors to properly account for receivables, deferred revenue, depreciation expense, and interfund transactions. These misstatements were not detected by the Village's internal control over financial reporting.

Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

We recommend that the Village take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk, we noted that at the present time, the Village does not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, utility billing, etc.). This issue was noted and reported in our audit comments in 2006.

While this is a common occurrence in many smaller organizations due to the limited number of employees, the Village Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the Village's management must provide a greater review and supervision of employee functions and procedures.

We recommend that the Village's management review various areas of operation and consider additional segregation duties to provide better internal controls. We also recommend that when the Village Council is adopting new or modifying existing financial policies, they consider the potential impact that fraud or misappropriation may have on the Village and assure that the policies address ways to prevent, deter, and detect fraud.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance.

UNFAVORABLE BUDGET VARIANCES

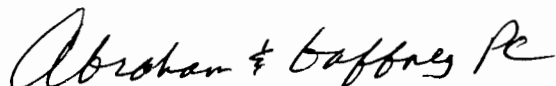
During our review of the Village's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund, the Major Street Fund, and the Local Street Fund. This issue was noted and reported in our audit comments in 2006.

The Uniform Budgeting and Accounting Act requires the Village to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

We recommend the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

We noted certain matters that we reported to management of the Village Council in a separate letter dated August 26, 2008.

This report is intended solely for the information and use of management, members of the Council of the Village of Ashley, and others within the Village and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Abraham & Gaffney PC". The signature is written in a cursive, flowing style.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 26, 2008